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Thursday March 31, 1977

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National Intelligence Daily Cable for Thursday, March 31, 1977.

The NID Cable is for the purpose of informing senior US officials.

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NATO: Airborne Warning Systems

25X1 [] //British Defense Secretary Mulley is likely to announce today or tomorrow that the British will back the British Nimrod system rather than a new and costly NATO airborne radar system. The British decision has been difficult because the Labor government has firmly supported the NATO system and the general concept of NATO standardization. The British are also well aware of the technological benefits the UK would derive from the NATO system.//

25X1 [] //The UK had hoped to delay a decision, but in the course of a parliamentary debate on the defense budget earlier this week, the opposition Conservatives forced the government's hand.//

25X1 [] //A Defense Ministry official has told the US embassy in London that Mulley believes that the NATO ministers who met last weekend did not make a firm commitment for the NATO system known as AWACS, the Airborne Warning and Control System. Mulley had warned the other NATO allies that without such a commitment he would not be able to postpone a British decision because of growing domestic pressure from trade unions, industry, and members of Parliament to adopt the Nimrod system.//

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25X1 [] //NATO now may attempt to pin down France's tenuous proposal for procuring the system if the allies agree to equip the AWACS system with engines produced jointly by France and the US. The West Germans have repeatedly sought French participation in the project. NATO Secretary General Luns, in response to a request from Leber, agreed Friday to ascertain the French position. []

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FRANCE: Cabinet Changes

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[] The cabinet changes announced in France yesterday enhance Prime Minister Barre's command of a government that is clearly less partisan than its predecessor. As expected, the foreign and defense ministers will stay on, as will a few technocrats who served in the previous cabinet.

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[] Dropped from the government were the three ministers of state who were spokesmen for their parties in the cabinet: Gaullist baron Olivier Guichard, Independent Republican leader Michel Poniatowski, and centrist head Lecanuet. These three ministers had been in the forefront of the struggle between President Giscard and Gaullist leader Jacques Chirac for leadership of the right's campaign against the left--a tug of war that has seriously undermined the President's authority.

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[] Poniatowski and Lecanuet were extremely critical of Chirac during the recent municipal election campaign and their removal from the cabinet could be interpreted as Giscard's first step toward improving relations with Chirac, the former prime minister--a vital prerequisite to any effort to defeat the left in the parliamentary election next year. The initiative is now up to Chirac who can either accept the gesture as conciliatory or pose demands for his cooperation that might be unacceptable to Giscard.

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[] The new cabinet is politically balanced among the four parties represented in the governing coalition but most of the ministers have not been prominent in their parties; five are technocrats.

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[] Of the four Gaullists in the cabinet none has been particularly close to Chirac. The cabinet appointments, in fact, sidestep the Chirac-Giscard rivalry; there is no assurance that Barre will be successful in healing the rift in the coalition that began last August when Chirac resigned as prime minister.

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[REDACTED] There are only two new faces in the cabinet; writer-diplomat Alain Peyrefitte and centrist senator Rene Monory. The cabinet is, in fact, more remarkable for the people who are not in it than for those who are. [REDACTED]

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PANAMA: Possible Student Unrest

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[REDACTED] There is a good chance that Panamanian students will renew their protests against the Torrijos government this spring, according to the US embassy. The school year began this week in secondary schools and resumes in early April for university students.

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[REDACTED] //The protests will focus on increased taxes, rising prices and unemployment, corruption, and the government's revision of the pro-worker labor code. Student-led demonstrations last September over the same issues led to the worst violence in Panama since General Torrijos took power in 1968. The National Guard, which forcefully put down the riots in September, has indicated it will take a tough line against student protests.//

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[REDACTED] //Three radical student groups are stirring up the antigovernment sentiment. Members of these groups have recently increased their influence and strength in student elections held at schools. Some teachers may not try to restrain the students because they are dissatisfied with the leftist political slant and poor quality of the course material written by the government.//

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[REDACTED] While the protests are likely to focus on unpopular government measures and on the government itself, anti-US demonstrations over the canal treaty negotiations cannot be ruled out. [REDACTED]

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TURKEY: Election Prospects Dim

25X1 [] The prospects for early parliamentary elections in Turkey appear somewhat dimmer today than they did last week, when the country's two principal political parties formally endorsed the idea.

25X1 [] The parliamentary groups of Prime Minister Demirel's Justice Party and opposition leader Ecevit's Republican Peoples Party on March 23 called for early elections. Only one of the major parties--the government coalition member National Salvationists, who seem to fear a decline in their parliamentary power--remained publicly opposed to the idea; with only 48 of 450 seats in the National Assembly, Salvationist leader Erbakan seemed to have little chance of thwarting the will of the majority.

25X1 [] Since then, however, two potential roadblocks have come to light, each of which could provide Erbakan with enough leverage to block early elections. A decision will have to be made by mid-April if the election process is to be set in motion in time to allow a vote before the customary July to September political hiatus.

25X1 [] The Turkish press claimed that Erbakan could kill an early election bill merely by boycotting the parliament's Consultative Council, an all-party group which must consider such measures before they go to the floor. The Salvationists threatened to do just that.

25X1 [] There is no consensus, however, on the legality of such a move, and a test on this issue would seem to hinge on who has the most political muscle. Demirel and Ecevit--who between them control more than two thirds of the votes in the Assembly--have each said that the ploy would not hold up.

25X1 [] During the past week Erbakan has pursued an erratic course. Wittingly or not he has prevented an early election bill from coming to a vote and has added considerable uncertainty to a process already fraught with potential pitfalls.

25X1 [] ITALY: Wage Compromise

25X1 [] //Italy's three major unions have accepted a compromise on measures to curb wages that will probably enable the government to complete negotiations successfully to obtain a \$530 million credit from the International Monetary Fund. If Prime Minister Andreotti secures IMF approval of the compromise, the most immediate threat to his government will have passed.//

25X1 [] //The unions had been protesting certain provisions of the decree law issued February 7, under which the government planned to assume some of the social security costs now borne by business and to raise indirect taxes to cover the outlay.

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Labor was antagonized by a stipulation in the decree that prevented the indirect tax increases from pushing up the wage bill via the cost-of-living "escalator."//

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[] //Under the compromise, the controversial provision will be stricken from the decree law. In return, the unions have agreed to alter the escalator by reducing the importance of public transportation and some utility charges. A second disputed provision, which would have heavily penalized firms granting wage increases in excess of those provided for in nationwide contracts, will be dropped in exchange for a "solemn pledge" by the unions not to seek excessive pay hikes during bargaining at plants.//

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[] //Though apparently the best bargain Andreotti was able to strike, the compromise solution is a poor substitute for the decree in its original form, which would have substantially benefited industry. Now the indirect tax increases will feed back into the wage bill, offsetting the easing in labor cost pressures arising from the decree. While the agreed-upon alterations in the escalator will probably be in effect for only one year, the changes in the escalator introduced under the original decree were to have been permanent.//

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[] //Although public attention over the last week has focused on the political maneuvering surrounding the decree, the Andreotti austerity program, even before the latest revisions, is inadequate to solve Italy's economic problems. Even if the original decree remained intact, Italy could still expect a jump in industrial labor costs of 18.5 percent this year--a leap far in excess of what is predicted for any other industrial country. Inflation in Italy will continue to be greater than in other industrial countries and the lira is likely to remain weak. []

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ZAIRE: Situation Report

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[] Katangan forces apparently have made no significant progress since Monday in their advance toward Kolwezi. The US embassy in Kinshasa reports that lead units of the Katangan forces remain near Kayembe, some 90 kilometers west of Kolwezi.

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25X1 [REDACTED] Ka-
tangan rebels yesterday opened a second front in Shaba Province.
The rebels reportedly were operating near Kiniama and Kasingo,
east of Lubumbashi near the Zambian border.

(C)

25X1 [REDACTED]
[REDACTED] The only known armed force in the area is a band of some
150 to 300 Zairian dissidents that occasionally harasses civil-
ians and Zairian troops near Lake Tanganyika. Elements of this
group may have moved south for operations near Lubumbashi.

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25X1 [REDACTED]
25X1 [REDACTED]
PAKISTAN: Bhutto's Maneuvers

The US embassy in Pakistan believes that Prime Minister Bhutto's increased emphasis on economic and foreign problems is designed to convince his opposition that he will govern effectively despite their campaign to oust him and that they can have some influence on government policies only by cooperating with him. Bhutto is still offering to work out a compromise with the opposition, but he clearly is prepared to use force if necessary to stay in office.

25X1 [REDACTED] Bhutto presumably hopes that this strategy will eventually force the opposition to settle for less than its full demands--his resignation and a new election--and to participate in the National Assembly.

25X1 [REDACTED] Despite some new faces and the shifting of some ministers to different jobs, the composition of the new cabinet announced yesterday does not indicate any fundamental policy changes. The most important ministers, including Bhutto's main advisers and his principle rival in the ruling party, remain in the cabinet.

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[redacted] Bhutto relinquished his foreign affairs portfolio to Aziz Ahmed, a close associate who has performed most of the functions of that office for five years. Although Ahmed is inclined to take a harder line than Bhutto on most issues, he has been generally cooperative in his dealings with US officials. Bhutto may keep the defense and home affairs portfolios, possibly to ensure that all security forces will be under his direct control during a confrontation with the opposition.

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[redacted] In an address on Monday, Bhutto also reiterated his offer to negotiate with the opposition and--as an inducement for their cooperation--said he would end the state of emergency and release political prisoners.

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[redacted] The opposition quickly rejected his offer and shows no signs of giving up its campaign to oust him. It may regard his continued offers to negotiate as a sign of weakness. The US embassy believes the opposition may soon have to choose between continuing its present campaign and resorting to more violent tactics. The opposition's current methods, based on demonstrations, have had considerable success, but they have not created the conditions that might force Bhutto from office. The embassy believes the confrontation could continue for several months. [redacted]

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INDIA: Post-Election Economy

25X1 [] The election of a new government is unlikely to affect Indian economic policy and performance over the next few months. The new government intends to give top priority to strengthening the democratic process. This, together with the political difficulties that are likely in a number of state governments and the fact that the parties that formed the new government have conflicting views, will limit new economic initiatives for at least some months to come.

25X1 [] The economic situation has been extraordinarily good by Indian standards for the past two years, mainly because of the amount and distribution of rain resulting from the monsoons. The new leadership faces no immediate crises that demand quick action. Prime Minister Morarji Desai outlined his government's policies in a speech on Monday delivered by the Indian acting president. The government implied that major economic changes would not be implemented until the next five-year plan, which begins in April 1979. Details of new programs will be announced when the final budget is presented in May.

25X1 [] If the governing parties implement their election platform, the trends of the past two years will continue. During

the campaign, Janata Party leaders called for increasing funds for agricultural development and increased farm income. Such measures would stimulate increased food grain production.

25X1 [] The new leadership also appears to recognize that India's population problem is both a consequence and cause of India's poverty. The new government has announced that many measures taken to slow the growth of Indian population in the past few years will be pursued vigorously. Coercive policies, such as the compulsory sterilization program of the Gandhi government, will be dropped.

25X1 [] Other Janata Party plans, however, could threaten economic progress. The party strongly favors a decentralized government, which could weaken the key role played by the central government in stimulating the economic growth of the past two years. The new government has also threatened to cut back export growth. Decreasing exports would depress those parts of Indian industry that are currently most buoyant, would worsen India's balance of trade, and increase its needs for foreign assistance.

25X1 [] A potential problem for the new government is the prospect of a fall-off in grain production this year. The timeliness and strength of the summer monsoon rains is the main determinant of food output and, ultimately, how the economy performs.

25X1 [] The past two years have been unprecedentedly good, but the odds strongly favor lower food production this year. The short-run effect on the economy may be minimal, however, because grain stocks have been built up to high levels.

25X1 [] Ambitious plans for industrial growth and the vulnerability of agriculture to bad weather have forced India to seek foreign assistance over the years. While India has preferred multilateral assistance from international organizations such as the World Bank Group and the UN, it has accepted large contributions from both the USSR and the US. The new government has made it clear that its foreign policy will be more balanced--that is, less pro-Soviet--but it probably will still seek and probably will receive aid from the USSR, but possibly in diminished amounts.

25X1 [] //Moscow has provided no new credits for economic development since 1966 and about 30 percent of the \$1.6 billion extended in the 1960s still has not been spent. Currently there is a net outflow of Indian resources to the USSR in repayment of past Soviet aid.//

25X1 [] //Trade between the two countries has grown steadily. Last year's four-year trade agreement called for bartering Soviet crude oil for Indian pig iron and steel. Soviet oil will satisfy 10 percent of India's petroleum requirements; in return the Indians will be shipping products that are surplus and difficult to sell on world markets to the USSR.//

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25X1 [] The US has for many years given food aid to India but has not provided development or project aid since the 1971 Indo-Pakistani War. The US also provides some military aid by training Indian officers.

25X1 [] In addition, the US provides indirect aid through international institutions. For example, the International Development Association committed \$800 million to India last year and the US finances about one third of the funds available to the association.

25X1 [] Prime Minister Desai recently indicated that India's "special relationship" with the USSR is at an end. Although the USSR may well continue to be a major supplier, his government may look to the US for increased military assistance. The possibility of a bad monsoon and a consequent decline in grain production are likely to lead the Indians to ask for more US food aid. []

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LIBYA-TUNISIA: Continental Shelf

25X1 [] Libya and Tunisia have intensified their dispute over the continental shelf and there is a possibility that a serious incident between naval vessels of the two countries may occur.

25X1 [] In a discussion late last week with Tunisian Foreign Minister Chatty, Libyan President Qadhafi adamantly rejected a Tunisian suggestion that the dispute be arbitrated either by the International Court of Justice or by a mutually acceptable group of Arab League members.

25X1 [] On Monday, Tunisian Prime Minister Nouria complained to the US ambassador that the Libyans had asked a French oil company to cease development operations in a field that Nouria says is clearly in Tunisian waters. The Libyans also claim the field and had previously objected to Tunisian operations there.

25X1 [] Nouria asked for US assistance, asserting that the Libyans were deliberately escalating the dispute in an effort to intimidate Tunisia. The French oil company, which shares its concession with three oil companies, including one US firm, intends to continue operations despite Libyan objections.

25X1 [] Until recently, the controversy between the two states focused on a Libyan drilling operation in disputed waters. The Libyans ordered an Italian drilling rig involved in the operation not to obey Tunisian orders to leave, and both countries reportedly sent naval vessels to the area. Although the rig has apparently not left the area, it did cease drilling operations.

25X1 [] In his discussion with Chatty, Qadhafi said that the oil rig would soon resume drilling. Citing Libyan military superiority, he said he hopes the Tunisians will not be foolish enough to try to prevent it.

25X1 [] Last week, The Tunisians told US officials that they intend to have a Norwegian drilling contractor operate just north of the area in which the Italian rig is located--an action probably intended to underscore Tunisia's claims. The Tunisian minister of defense told US officials that the Tunisian navy would guard the new drilling operation and would fire on anyone interfering with it.

25X1 [] In the past, both sides have been careful to avoid an incident. The latest, and more bellicose, statements by Qadhafi and Tunisian officials, however, may indicate a greater willingness to risk an actual exchange of fire to protect what they regard as their vital interests on the shelf. []

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